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Weekly Contributions
Latin America Branch, ORE, CIA
20 September 1949

Of the developments reported this week, B/LA finds that on the Communist "Peace Congress" (p. 2) of particular interest.

CURRENT DEVELOPMENTS

GENERAL: Communist benefits from the [REDACTED] have been negligible (p. 2). Latin America offers very limited prospects for immigrant settlement (p. 2).

CENTRAL DIVISION: The Venezuelan Government has thwarted an attempt by Acción Democrática to regain control of an important oil union (p. 3). In Colombia, the present tension over the Liberal Electoral Bill is expected to result in sporadic violence (p. 3). Ecuador's President Plaza gives further encouragement to the reestablishment of the political coalition that brought him into office (p. 4).

SOUTHERN DIVISION: Peru may abrogate its trade agreement with the US, but could very well fail to adhere to GATT provisions in any new agreement (p. 4). In Chile, political hazards will attend any move the administration might make toward currency devaluation (p. 5). In Paraguay, despite acclaim for the new regime, conditions adverse to stability exist (p. 5).

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The limited prospects for immigrant settlement in Latin America are again emphasized by replies from US Embassies to a query from the Department of State on the possibility of German refugee settlement. Most Latin American governments indicate an indisposition to consider immigration except on a very limited and restricted basis, if at all. It is true that the IRO was successful in getting some limited promises of acceptance of displaced person refugees in Latin American countries; only some of these promises, however, are being carried out. Argentina, which has taken the most immigrants during the past two years, prefers -- as do the other Latin American countries -- Spanish and Italian immigrants because of the relative ease of assimilating them. B/LA estimates that unless substantial financial assistance is made available for settlement projects, local political-economic conditions will not warrant any large increase in immigration to Latin America in the foreseeable future.

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3. VENEZUELA: Government Blocks Acción Democrática Attempt to Remove
25X1X4 Oil Union Directorate

[REDACTED] the junta-approved directors of the Sindicato de Obreros y Empleados Petroleros of Cabimas, the largest oil workers' union in the western fields, sent a letter of resignation to the government on 13 August, just before the arrival of the investigating commission of the International Labor Office. The resignations were withdrawn after Capt. Gámez Calcano, military commander of the area, threatened the directors with arrest if they refused to continue serving.

In the light of earlier reports, this incident appears to be a good example of the methods by which Acción Democrática leaders 25X1X4 [REDACTED] are attempting to regain control of the oil workers' unions. [REDACTED]

[REDACTED] have previously reported: (1) that the directors of the SOEP in Cabimas appeared to be pawns of Gámez Calcano; and (2) that AD leaders were regaining sufficient control of the membership of the union so that the directorate was now functioning in name only. It therefore seems highly possible that the attempted resignation, which would clearly have embarrassed the government, was the result of pressure from the pro-AD union membership, and was designed, by placing these directors in an untenable position, to rid the union of leaders foisted upon it by the government-sponsored reorganization.

B/LA believes that the government will continue to take firm measures to prevent AD leaders from regaining outright control of important oil workers' unions.

4. COLOMBIA: Crisis Imminent

Political tension in Colombia has increased since both political parties realized, on analyzing the results of the June congressional elections, that the Liberal Party could not be sure of gaining the presidency in 1950 even if it avoided the split ticket which had been disastrous in 1946. Although the Conservatives gained in the June congressional elections, the Liberals won a majority and are anxious that the presidential election should be held in conditions as similar as possible to those in June.

The Liberal-sponsored amendment to the 1948 electoral code, which advances the date of the presidential election from June 1950 to November 1949 (see B/LA Wkly for 6 Sep 49), would not only give the Liberals an advantage in case the slow-moving swing to the right is continuing, but would also cause the scheduled re-registration of voters, with the concurrent elimination of fraudulent registrations, to come after rather than before the elections.

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The contest over the Liberal amendment reached its last legal stage when it was sent to the Supreme Court on 14 September for a decision as to its constitutionality, which decision must be reached within six days. Shortly then, the membership of one of the political parties, either the Conservative or the Liberal, will be faced with an adverse and final decision and forced to choose between violence and acceptance of what it considers to be a serious disadvantage in the coming presidential election.

While responsible leaders of both parties are expected to call for peaceful acceptance of the decision, there will be at least sporadic violence. There is no present reason to expect, however, that this violence will degenerate into civil war.

5. ECUADOR: President Plaza's willingness to make some cabinet changes will greatly encourage the politicos now engaged in the reestablishment of the Movimiento Cívico Democrático Nacional (MCDN) as it opens the door to the most desirable form of patronage. Since assuming office, Plaza has insisted upon the policy that all government offices be filled with representatives of the established parties, refusing to recognize the MCDN as anything more than a temporary election coalition. In recent weeks, it has become increasingly evident that his hopes for inter-party cooperation and support are illusory and that his successful administration is dependent upon the reestablishment of the coalition which did so much to elect him (see B/LA Wkly for 30 Aug 49). A 25X1X4 complete renewal of the cabinet, however, is not to be expected.

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Plaza would not consider removing Clemente Yerovi Indaburu (Minister of Economy) because he is considered to be "the most indispensable", Manuel Diaz Granados (Minister of Defense) who has the "cooperation of the army", Eduardo Salazar Gomez (Minister of Government) because of his reputation abroad, or Franklin Tello (Minister of Social Welfare) who has the support of "large groups of workers and employers". Plaza's expressed willingness to retreat from his original policy even with regard to the cabinet, "should conditions demand changes", greatly enhances the political prospects of the MCDN.

6. PERU: The possible abrogation by Peru of its trade agreement with the US -- even if it is not followed by Peru's adherence to GATT -- will not adversely affect important US interests and

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cannot be considered as indicative of Peruvian unwillingness to cooperate in US policies. Peru would like to negotiate a new agreement with the US, but is less interested in multilateral agreements. Peruvian leaders -- like those of certain other Latin American nations -- cannot perceive concrete economic benefits in adherence to GATT principles and are looking for immediate means to relieve pressing local economic problems. Peru finds that even the existing trade agreement (outside of GATT) with the US is onerous because the trade balance with the US continues to be unfavorable, US sugar and cotton quotas minimize Peruvian sales of those commodities to the US, and the agreement prevents Peru from imposing new import taxes on US products. In short, although the US policy of promoting multilateralism in trade may run into serious obstacles in Peru purely as a result of local conditions, no other serious conflict with US interests may be expected.

7. CHILE: The possibility that another official rate of exchange will be established in Chile has been increased by the devaluation of the pound sterling and by the continued depreciation of the free market peso which recently reached an all-time low of 92 to the dollar. Dollars at the 31 or 43 exchange rate are very scarce at present. The Chilean Government, however, will, of necessity, act cautiously in initiating any depreciation move since any substantial price rises at this time would be politically unhealthful for an administration which only a month ago faced cost-of-living riots and strikes.
8. PARAGUAY: An undercurrent of political unrest is evident despite the wide popular acclaim accorded the new Chaves regime. The elimination of all but Democratic Colorados from the government lessens the hope for a government based on representative principles and indicates a certain lack of confidence on the part of the new regime. Moreover, reports of disagreement among the ruling Democratic Colorados over the desirability of Chaves as president indicate that the overthrow of the Molas regime may have caused further political deterioration rather than greater unity in the faction that held the most favorable promise of restoring some measure of stability to the country. Continued dissension among the Democratic Colorados would facilitate any efforts of an army clique to set up a military government.

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The Current Situation in Guatemala

(Summary --- The armed services are dissatisfied with President Arévalo's policies and are seeking to force leftists out of the government. The unstable balance between leftist and conservative political influences is forcing Arévalo to attempt a middle course. The continuation of his administration, however, depends upon further concessions to the right. The national economy remains stable. Present conditions are unfavorable to the expansion of Communist influence. In foreign affairs, no change in Guatemala's basic objectives is apparent, but policy will lack consistency until domestic conflicts are resolved.

— The trend away from the left in Guatemalan domestic and foreign affairs is distinctly beneficial to US security interests because it presages the possible adoption of (1) more repressive measures against Communists, and (2) the successful negotiation of contracts that will permit the development of Guatemalan petroleum resources by US corporations.)

Military

Possibly the most important factor in the current situation is the political position of the army. Army dissatisfaction with President Arévalo and his leftist civilian associates has increased since the assassination of Colonel Arana, Chief of the Armed Forces, on 18 July. The division of loyalties within the armed services — the reason for the failure of the attempt by conservative officers to seize the government on 18-19 July — no longer exists; there is now a united anti-administration front. Colonel Gabino Santizo, a prominent government supporter during the recent revolt, has been relieved as Guatemala City zone commander. The army is believed to be importing arms by air from Mexico, to be distributing arms to conservative civilian sympathizers, to be closely watching key leftist leaders, and to be investigating the possibility of obtaining aid and encouragement from neighboring countries — El Salvador, Nicaragua, and possibly Honduras. Major Carlos Paz Tejada, newly elected Chief of the Armed Forces, has stated that the army, which is now united under his leadership, will seek to disband and disarm the labor union members, jail their leaders, and force President Arévalo to pursue a conservative course. Paz Tejada claims he will act on his own authority,

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regardless of orders that may be issued by President Arévalo or Minister of Defense Arbenz, and -- despite anticipated resistance from armed unionists -- he is confident of success.

B/LA believes that the army will not resort to force unless and until direct pressure and threats of revolt prove unsuccessful as a means of forcing President Arévalo to eliminate leftists from the government.

Political

An unstable balance between leftist and conservative influences characterizes the current political situation. Leftist political and armed strength, demonstrated when Partido Acción Revolucionaria members and armed unionists aided the government in suppressing the recent revolt, has been offset by the army's determination to take an active -- and conservative -- role in political affairs, and to abandon the passive role advocated by Colonel Arana, who counseled restraint in hopes of being legally elected as Arévalo's successor in 1951.

Faced with pressure from the left to continue his social reform program, and from the right to abandon it and take action against the radicals popularly believed to have planned the murder of Colonel Arana, President Arévalo has attempted to steer a middle course. He has retained his leftist, pro-labor Minister of Economy and Labor, Alfonso Bauer Paiz, but has replaced his pro-Communist Minister of Foreign Affairs, Enrique Muñoz Meany, with the moderate, pro-US Ismael Gonzalez Arévalo. His government has taken pains to disavow extreme leftist tendencies -- possibly to gain international support at a time of crisis --

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B/LA estimates that Arévalo will have to make further, and more drastic, concessions to the conservatives if he is to maintain the stability of his administration. The army, which can expect to receive the backing of moderate members of the FPL (the administration party now dominating congress) and various conservative opposition groups, will shortly, it is believed, be sufficiently united and prepared to enforce its demands. Although it is not certain that President Arévalo himself will be forced out of office, this is possible if he fails to respond to rising opposition pressure.

Economic

The national economy of Guatemala remains stable, and the future outlook is satisfactory in view of expected continued high coffee prices. Current foreign exchange reserves (\$45.5 million) are but slightly below

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those of a year ago (\$50.1 million). Continued government operation of the former German coffee plantations (major source of income of the expanded postwar Guatemalan Government) has been facilitated by the promulgation of a new law for the liquidation of war matters. This law will permit the legal expropriation of these properties; also, it establishes a council to determine the amount of claims to be made against Germany and its former satellites.

The unstable political situation has tended to favor US commercial interests. Minister of Defense Arbenz is now seeking to reawaken the interest of US oil companies in contract negotiations. Arbenz has announced his opposition to Minister of Economy and Labor Bauer Paiz' extremely nationalistic petroleum law, which was passed by the Guatemalan Congress on 1 August, but has not yet been approved by the executive. Both Arbenz and Mariano Arévalo (the latter possibly acting as spokesman for his brother, the President) now seem to feel that a solution satisfactory to the US oil companies can be worked out. In the matter of the dispute between the US-owned IRCA railway and its union employees, President Arévalo and Colonel Arbenz now favor settlement on the basis of IRCA terms, in direct opposition to Minister of Economy and Labor Bauer Paiz.

Subversive

The developing political situation is adverse to the expansion of Communist influence in Guatemala and in the event of the anticipated open struggle for power between pro- and anti-Communist forces, the Communists will be rendered politically impotent along with many of their liberal sympathizers. The replacement of leftist Muñoz Meany by González Arévalo as Foreign Minister — a change protested by the pro-Communist Partido Acción Revolucionaria and the Comité Nacional de Unidad Sindical — is expected to weaken their influence in international affairs. The developing army campaign to force leftists out of the government will, it is anticipated, virtually eliminate their influence in domestic political affairs as well. Meanwhile, the pro-Communist political parties and labor unions remain strong, and Communist front activities continue. A committee was recently formed to support the peace congress currently convening in Mexico City, backed by various unions and front groups (the Sindicato de Trabajadores de Educación, the Alianza de la Juventud Democrática, the Confederación de Trabajadores de Guatemala, and the Asociación de Estudiantes de Humanidades). Although the Communists may be able to instigate strikes, riots, violence and sabotage in an attempt to maintain this position, their political host organization — the extreme

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leftist parties and unions -- do not, it is believed, have the strength to oppose the unified army-backed conservative movement that is now developing.

International

Guatemala's foreign policy remains unchanged. Its guiding principles continue to include: opposition to the "dictatorships" of Central America, the Caribbean and Spain; the defense and preservation of democracy in the face of attempts by anti-democratic regimes to destroy it; and opposition to "colonialism" in America and alignment on the side of the US in the event of an East-West war.

Guatemala's relations with the other republics of Central America and the Caribbean have recently deteriorated because of the widely accepted belief in the government's complicity in the activities of the Caribbean Legion and in the assassination of Colonel Arana. Following Arana's assassination and the suppression of the conservative army revolt, El Salvador expelled José Manuel Fortuny, an important Guatemalan leftist union leader and congressional deputy. Major Osorio, dominant figure in the Salvadoran junta, has openly expressed his fears of a Guatemalan invasion and has expressed his determination to seek aid, if necessary, from Guatemala's arch-enemy, General Somoza of Nicaragua. Suggestions by the US that the Inter-American Peace Commission investigate Caribbean unrest has placed Guatemala's policy of aiding the Caribbean Legion under international censure. To the detriment of Arévalo's government, both at home and abroad, Nicaraguan and Dominican propaganda is exploiting the murder of Colonel Arana as evidence of Communist dominance and the use of terroristic political methods. Moreover, representatives of the Guatemalan Army itself, as well as the exiled leaders of the 18-19 July revolt, are actively seeking support abroad in a campaign to discredit, and possibly overthrow, the Guatemalan Government.

In the face of these developments, administration leaders are seeking to improve the standing of their government with the US, to minimize their involvement with the Caribbean Legion, and to discredit the "dictatorships" by issuing counter-propaganda.

B/LA believes that existing tension within the country will prevent Guatemala from achieving these immediate objectives and that until the present struggle between the army, conservatives and moderates on the one side and the liberals and leftists on the other is decided in favor of one or the other of the contestants for power, Guatemala's foreign policy will be inconsistent and ill-defined both toward the US and toward intra-area political problems.

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The Current Situation in Venezuela

(Summary -- the political situation in Venezuela is uneasy, but not critical. Increased oil production has improved economic conditions for the present; long-term prospects are threatened by competition from Middle East petroleum. The increased tempo of Communist activities has resulted in no visible achievements. The armed forces have been favored with a budgetary increase, while budgets of all other departments have been reduced.

-- Venezuelan foreign trade policy is tending to move away from US-favored free trade and multilateralism, and US interests may be unfavorably affected by problems arising from revolutionary activities of Acción Democrática in foreign countries.)

Political

The political situation in Venezuela is characterized by increasing uneasiness, although there is no clear evidence of a diminution of the junta's ability to control the situation. Factors contributing to the present state of tension are: (1) revolutionary activities of Acción Democrática both within and outside the country; (2) evidence of growing disaffection among the enlisted men and the younger army officers; (3) rumors of conspiracy within government circles aimed at changing the composition of the junta.

The revolutionary activities of AD appear to constitute an increasingly substantial threat to stability. The junta itself fears that Betancourt 25X1X4 [] directly directing plans for an uprising, US Embassy Caracas reports.

[] a coup is being planned, and that the AD underground is growing in strength and organizational efficiency (see B/IA Wkly for 6 Sep 49). The success of any AD plot, however, would undoubtedly depend on the existence of widespread disunity in the army.

There are indications of increasing disunity within the army. While AD may be able to capitalize to some extent on the reported discontent of the younger army officers (see B/IA Wkly for 19 Jul 49), it is more likely that most of them will remain loyal to the government. The influence of AD among the enlisted men is probably increasing, as evidenced by the recent arrest of 20 sergeants from the military school in Caracas for alleged conspiracy. Such isolated incidents as the latter and the Maracay

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episode of 31 May, however, afford no truly reliable gauge either of the extent of disunity or of the government's ability to control a more general uprising.

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Since the coup of November 1945, [REDACTED] have from time to time reported the existence of conspiracies within the government aimed at removing one or another of the junta members, while [REDACTED] have repeatedly asserted that the junta is strongly united. If the present tension increases and if the stability of the government is seriously threatened, it may be expected that the more tolerant Delgado Chalbaud will be replaced by Pérez Jiménez in order that the stricter measures of control which may be necessary will be executed more effectively by a more arbitrary and uncompromising officer.

Economic

The economic situation has improved, for the present, at least, with an increase of oil production approaching peak levels. Long-term prospects for the economy, however, are less promising, since the petroleum industry will soon have to face increasing competition from low-cost Middle East oil. The government, continuing its study of petroleum policy, has extended the life of the National Commission on Petroleum and Mineral Policy six months from 1 July. Oil companies are pessimistic about the attitude of the new Minister of Fomento, Egaña, who favors the policy of granting new concessions only to companies in which the government and private Venezuelan capital jointly participate with foreign oil companies. Although the oil policies now under consideration may be less favorable to the oil companies, no serious threat to US interests is seen thus far.

Development of the rich iron deposits south of the Orinoco is proceeding rapidly. The Iron Mines Company of Venezuela, a subsidiary of Bethlehem Steel Co., expects to begin exporting in 1950, reaching eventually a production of 3,000,000 tons a year. The Oliver Iron Mining Co., a US Steel subsidiary, whose concessions are estimated to contain up to several hundred million tons, may develop an exportation of up to ten million tons annually. Shipments of ore by US Steel await the development of transportation facilities by extensive dredging of the Orinoco or by the construction of a railway from Ciudad Bolívar north to Puerto la Cruz. The construction of either transportation route would open the territory south of the Orinoco to further development.

A Communist propaganda campaign claiming that mass dismissals had occurred in the oil industry led to a government census of unemployed. The census found 8,604 unemployed in the entire country as compared with Communist claims of 17,000 dismissals in the oil industry alone. The census

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will continue on a periodic basis, and the government apparently intends to take active measures to prevent unemployment.

There are indications that the "blue" oil workers' unions (formerly controlled by AD) are regaining strength, and appear to have successfully resisted Communist pressure for "labor unity". It has been reported that AD labor leaders are regaining control of the "blue" unions and that they plan to form a national federation of oil workers to replace Fedepetrol. It is doubtful, however, that the government would tolerate the establishment of a new oil workers' federation unless the unions first had been purged of AD influence.

Recent developments in the foreign trade policy of Venezuela have been at variance with US policy objectives. Pressure from domestic producers has led to increased duties and lower import quotas on a variety of commodities. It also has been reported that the government is now seriously considering the advisability of entering into bilateral and barter agreements with Latin American and European countries as a means of preserving these markets for Venezuelan royalty oil, which faces increasing competition from the sterling area. These developments indicate that the Venezuelan Government will probably make independent trade policy decisions based on its conception of domestic requirements, and by so doing ignore rather than oppose US interests in free world trade and multilateralism.

Subversive

The pattern of Communist strategy in Venezuela has become more sharply defined during the past three months, with the development of three parallel but distinct programs of action and propaganda. First is the program of syndical unity, a campaign for the merger of Communist and non-Communist unions at the local level, with the ultimate objective of creating a Communist-dominated labor federation. This program will probably fail because of the strong resistance it has met and will continue to face from the former AD unions. The political program of the Communists, returning to the "popular front" strategy, aims to create an alliance with Unión Republicana Democrática (URD) and other left-wing elements. Although URD has avoided committing itself, such an alliance is distinctly possible. The third program of the Communists is a vigorous propaganda offensive centering about the theme of impending economic crisis, at the same time advocating measures such as increased taxation of oil companies, higher tariffs and import restrictions, which would only hasten such a crisis. Although Communist strategy appears to have entered a new phase of aggressiveness without encountering strong interference from the government, there is no evidence of any real gain in Communist strength.

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Military

The armed forces of Venezuela perform a function of continuing importance as the primary instrument for the maintenance of domestic order. The national defense budget for 1949-50 has been increased by 44 million bolivares over that of the preceding year (representing 11 percent of the total budget as compared with 7 percent in 1948-49), while the budgets of all other departments have been reduced. The significance of these figures is diminished, however, by the fact that the budget for the National Guard is included for the first time in the Ministry of Defense budget. Arms and equipment continue to be purchased from European sources. The difficulty of obtaining arms from the US was cited by the Embassy as a possible basis for a rumor circulating in June to the effect that the contract of the US Army Mission would be cancelled. No further reports have substantiated this rumor, and the mission appears to be operating in a cordial atmosphere of cooperation.

International

No serious problems at present disturb the international relations of Venezuela, although an issue of grave significance will arise if it becomes clear that any foreign government is tolerating revolutionary activities of AD within its territory. A commission of the International Labor Office, invited by the Venezuelan Government to investigate labor conditions and the status of unions, arrived 22 July. Its findings have not yet been published. With the recognition of the Venezuelan Government by Cuba (18 July) and Costa Rica (6 Aug) the number of Latin American governments maintaining no formal diplomatic relations with Venezuela has been reduced to four (Bolivia, Chile, Guatemala, and Uruguay).

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